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ABSTRACT

This report to Congress analyzes student loan default rates at historically black colleges and universities (HBCUs), focusing on student characteristics which may predict the likelihood of default. The study examined available student databases for characteristics identified by previous studies as related to level of student loan defaults. Among the findings were: (1) Compared to other institutions HBCUs enroll a higher percentage of less academically prepared freshmen who come from more disadvantaged socioeconomic backgrounds and are more likely to need remedial work; (2)among HBCUs, those with lower default rates tended to enroll students with more academic preparation and who were at higher socioeconomic levels; (3) the Department of Education has a default reduction initiative which supports schools' efforts to provide financial counseling to student borrowers and to follow-up with delinquent borrowers; (4) currently 14 HBCUs are at risk of losing their student loan program eligibility because of high default rates; eight more are potentially at risk; and (5) financial aid administrators at HBCUs cite loan counseling and early intervention as the measures used to manage student loan default rates. Appendices detail the study's methodology, list specific loan default predictor variables, the Carnegie school classifications, and the default rate for 19 selected HBCUs. (DB)

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ED 419 444

United States General Accounting Office

GAO

Report to Congressional Requesters

April 1998

STUDENT LOANS

Characteristics of Students and Default Rates at Historically Black Colleges and Universities

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GAO

United States
General Accounting Office
Washington, D.C. 20548

Health, Education, and
Human Services Division

B-276980

April 9, 1998

The Honorable William F. Goodling
Chairman
The Honorable William L. Clay
Ranking Minority Member
Committee on Education and the Workforce
House of Representatives

The Honorable Edolphus Towns
House of Representatives

A group of more than 100 schools collectively designated Historically Black Colleges and Universities (HBCU) has a long history of providing higher education for low-income and educationally disadvantaged students. These public and private 2-year and 4-year schools, generally established before 1964 to educate black Americans, enrolled more than 277,000 students, about 82 percent of whom were black, in the fall of 1995. For many years, the Congress has acknowledged the special role HBCUs have played in helping promote equal opportunity through postsecondary education.

Compared with students at other schools, students at HBCUs generally rely to a greater degree on federal student loans. Students attending these schools received about $910 million in federal student loans in fiscal year 1996. Also, the average federal student loan default rate for HBCUs has generally been higher (currently, more than double) the average rate for other 2-year and 4-year schools. In general, institutions are prohibited from participating in federal student loan programs if their default rates exceed statutory thresholds, currently 25 percent, over 3 consecutive fiscal years, but the Congress has exempted HBCUs from this restriction. In recent years, this exemption has kept several dozen HBCUs from being dropped from the student loan program.[1] However, the current exemption, which is part of title IV of the Higher Education Act of 1965, as amended, expires in July 1998. Reauthorization of the act is slated for consideration during the second session of the 105th Congress.

Over the past decade, a growing body of research has established that various measures of students' academic preparation and socioeconomic

[1]We previously reported on the number of HBCUs with default rates above the 25-percent threshold for two such 3-year periods—fiscal years 1988-90 and 1991-93. See Student Loans: Default Rates at Historically Black Colleges and Universities (GAO/HRD-93-117FS, Aug. 19, 1993) and Student Loans: Default Rates at Historically Black Colleges and Universities (GAO/HEHS-97-33, Jan. 21, 1997).

status predict how likely students are to default on their loans. In general, default rates tend to be higher among students who are not as well prepared academically as others and whose families are not as well off economically. You asked us to address several issues regarding default rates at HBCUs, including an analysis of these kinds of links. As agreed with your offices, we focused our work on the following questions:

- How do freshman students at HBCUs compare with those at all colleges and universities in terms of the academic and socioeconomic characteristics that have been linked to student loan defaults?
- Among 4-year HBCUs, how do such characteristics for undergraduate students differ at schools with higher default rates compared with schools with lower default rates?
- What measures has the Department of Education taken or planned to help HBCUs reduce their student loan default rates?
- How many HBCUs are potentially at risk of losing title IV student loan eligibility because of high default rates in 1993-95, and how many of these were potentially at risk in 1988-90?
- What measures have HBCUs taken to reduce or minimize their student loan default rates?

To conduct our review, we analyzed available student databases with data on various characteristics that previous studies had shown to be related to the level of student loan defaults. Much of the data we analyzed were from the Department of Education, but some were developed from surveys by other researchers. Because the databases did not all contain the same information, we were not always able to apply the exact same set of characteristics. For example, one database might contain the high school grade point averages of entering freshmen as an indication of academic preparation, while another might have freshman retention rates or college graduation rates. Appendix I describes the studies we examined, including our scope and methodology, and appendix II lists the specific academic preparation and socioeconomic indicators we identified. In performing our analyses, we also interviewed representatives from the Department, HBCUs, and other organizations. We conducted our review between June 1997 and January 1998 in accordance with generally accepted government auditing standards.

Results in Brief

HBCUs have enrolled a higher percentage of freshmen who, compared with their peers at all institutions, are less prepared academically and come from more disadvantaged socioeconomic backgrounds. For example,

freshmen at HBCUs had lower high school grades and were more likely to need (or already to have received) tutoring or remedial work than freshmen at all colleges and universities. The 1995 graduation rate for 4-year HBCUs (35 percent) was substantially below that of non-HBCU students (54 percent). Students at HBCUs were twice as likely to come from a home where parents were divorced or separated, and their parents generally had lower education and income levels than parents of students at all colleges and universities.

When the analysis is narrowed to only HBCUs, the same pattern is found: In general, HBCUs with lower default rates enrolled students with more academic preparation and higher socioeconomic levels. For example, HBCUs with lower default rates retained a higher percentage of their entering class and had higher percentages of students graduate. Similarly, parents of students receiving federal financial aid at HBCUs with lower default rates generally had higher average adjusted gross incomes and more education and were more likely to be married.

The Department of Education employs a number of measures to help schools reduce student loan defaults. These measures apply to all schools, as the Department has no separate or specific default reduction program for HBCUs. The Department's primary efforts were introduced in 1989 as its default reduction initiative and include such activity as supporting schools' efforts to provide financial aid counseling to student borrowers and follow-up with delinquent borrowers.

According to the most recent computations available (for 1993-95), 14 HBCUs were potentially at risk of losing their student loan program eligibility because their default rates remained at or above 25 percent for 3 consecutive years. This is fewer than the 33 HBCUs that we reported in August 1993 as potentially at risk on the basis of their 1988-90 default rates.[2] Of these 33 HBCUs, 8 remained potentially at risk on the basis of their 1993-95 default rates (6 more subsequently became potentially at risk), 19 were no longer at risk and were eligible to participate in federal student loan programs, and 6 were no longer participating in the programs.

Financial aid administrators at 22 HBCUs we surveyed cited default reduction measures promoted by the Department—loan counseling and early intervention with delinquent borrowers—as the default reduction measures they most often used in managing their student loan default rates. This survey included administrators at 14 of the 33 HBCUs that we

[2]GAO/HRD-93-117FS, Aug. 19, 1993.

previously reported could be at risk of losing their student loan eligibility—if they were not subject to the exemption—based on their 1988-90 default rates.

Background

In total, 103 schools are currently designated HBCUs. They range in size and scope from 2-year colleges with relatively few programs to 4-year universities offering graduate degrees in several fields and enrolling more than 10,000 students. Although most students who attend are black, about one student in every six is not. Collectively, HBCUs enroll about 16 percent of all black students attending all 2-year and 4-year colleges and universities in the United States.

Title IV authorized the Department of Education to bar postsecondary schools with high fiscal year "cohort default rates" from continuing to participate in federal student loan programs.[3] Each year, the Department assesses a school's eligibility on the basis of its three most recent available cohort default rates. In fiscal year 1998, eligibility is based on default rates for fiscal years 1993, 1994, and 1995. A school remains eligible if its cohort default rate is below the statutory threshold, currently 25 percent, in at least 1 of the latest 3 consecutive fiscal years. A school becomes ineligible if its default rate equals or exceeds the default threshold in all 3 fiscal years. The Higher Education Act exempts HBCUs from this threshold requirement through June 1998.

In addition to the cohort default rate threshold specified in the Higher Education Act, the Department has established—through regulation—a provision that allows it to start procedures to limit, suspend, or terminate a school's participation in all title IV federal student aid programs if the school's cohort default rate for a single year exceeds 40 percent. The exemption from the statutory threshold for HBCUs does not extend to this provision.

Students get federal loans from two major programs: the Federal Family Education Loan Program (FFELP) and William D. Ford Federal Direct Loan Program (FDLP). Loans made under FFELP are provided by private lenders and are ultimately guaranteed against default by the federal government.

[3]For a school with 30 or more borrowers entering repayment during a fiscal year, the cohort default rate is a percentage that results from two parts: (1) the number of a school's student loan borrowers who are supposed to begin repaying their loans in a fiscal year divided into (2) the number of borrowers who default by the end of the following fiscal year. Borrowers are generally in default if they fail to make any scheduled payments on their loans for 180 days, if repayment is made monthly, and 240 days, if repayment is made less frequently.

Loans made under FDLP are provided through schools, and the Department services and collects loans through contractors. FDLP was originally authorized by the Higher Education Amendments of 1992. Since the first loans under FDLP were made in the fourth quarter of fiscal year 1994, the fiscal year 1995 cohort is the first cohort affected by FDLP defaults.

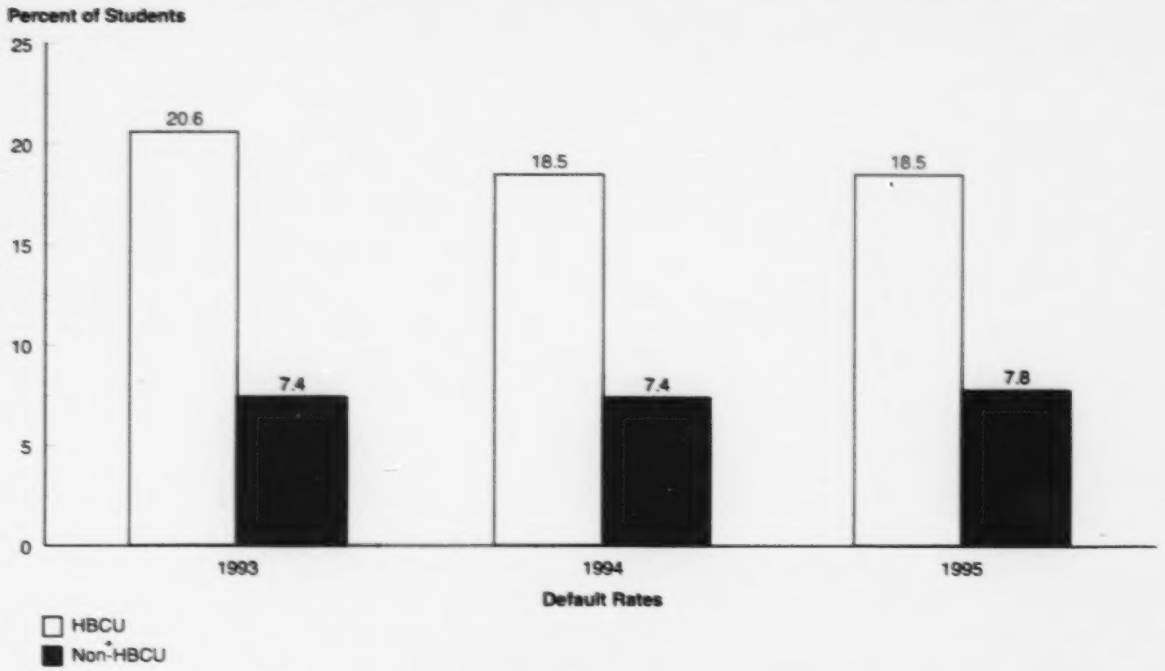
Students at HBCUs make extensive use of these loan programs. Although HBCU students accounted for 1.9 percent of fall 1995 enrollments at all 2-year and 4-year public and private schools, they were awarded 3.5 percent of the total dollar volume of student loans under FFELP and FDLP in fiscal year 1996 (see table 1).

Table 1: Comparison of Student Loans and Enrollment at 2-Year and 4-Year Public and Private HBCUs and Non-HBCUs, Fiscal Year 1996

	HBCUs	Non-HBCU	Total
Fiscal year 1996 FFELP and FDLP awards, dollars in billions	$ 0.91	$25.26	$26.17
Fiscal year 1996 FFELP and FDLP awards, percent of total awards	3.5%	96.5%	100.0%
Fall 1995 enrollment	277,301	14,195,019	14,472,320
Fall 1995 enrollment, HBCUs and non-HBCUs, percent of total enrollment	1.9%	98.1%	100.0%

On average, HBCUs have a higher student loan default rate than non-HBCUs, but the difference has narrowed somewhat. Between fiscal years 1993 and 1995, the aggregate student loan cohort default rate for HBCUs declined from 20.6 percent to 18.5 percent while the rate for non-HBCUs increased from 7.4 percent to 7.8 percent (see fig. 1).

Figure 1: Aggregate Student Loan Cohort Default Rates for HBCUs and Non-HBCUs, Fiscal Years 1993-95



Before 1987, little research had been published that identified the factors that could predict high student loan default rates. However, in the past 10 years several empirical research studies have analyzed student borrowers from proprietary (private, for profit) schools as well as from public and private 2-year and 4-year colleges and universities. A key theme derived from these studies is that student loan repayment and default behavior are primarily influenced by individual borrower characteristics rather than by the characteristics of the educational institutions they attend. For example, one study concluded that "student characteristics are of overwhelming importance in correctly predicting defaulters, in contrast to the institutions they attend, or the administrative practices those institutions use to try to curb student defaults."[4]

[4]Wellford W. Wilms, Richard W. Moore, and Roger E. Bolus, "Whose Fault Is Default? A Study of the Impact of Student Characteristics and Institutional Practices on Guaranteed Student Loan Default Rates in California," Educational Evaluation and Policy Analysis, Vol. 9, No. 1 (spring 1987), pp. 41-54.

The studies indicate that characteristics playing an important role in determining the level of student default rates are related to students' academic preparation and socioeconomic background. In general, the higher the students' academic preparation and more advantaged the socioeconomic background, the lower the likelihood of defaulting on their student loans. Factors indicating good academic preparation, such as staying in college, earning good grades, and advancing to graduation, significantly decrease the probability of default. Two of the most important factors accounting for different college graduation rates among institutions are actually precollege factors: high school grades and college admissions test scores. The higher the grades and test scores, the greater the incidence of college graduation. Similarly, studies have shown that students who come from a more advantaged socioeconomic background—indicated by higher parental education and income levels and two-parent families—have better high school grades and lower student loan default rates.

Academic Preparation and Socioeconomic Levels of Freshman Students Vary by School Type

Students attending 4-year HBCUs are less academically prepared and come from a more disadvantaged socioeconomic background than their counterparts attending all 4-year colleges and universities, according to our analysis of an annual survey of the fall 1996 freshman class.[5] For example, relative to freshmen at all 4-year colleges and universities, HBCU students had a lower high school grade average and needed (or already had) more tutoring or remedial work. In addition, the rate at which students starting at the same school graduated within a 6-year period was lower for HBCUs than for non-HBCUs. Relative to parents of freshmen at all 4-year colleges and universities, parents of 4-year HBCU freshmen were more likely to be divorced or separated, less likely to have a college education, and more likely to earn less than $20,000 a year. These findings help explain why HBCU student loan default rates have generally been higher than the rates for non-HBCUs.

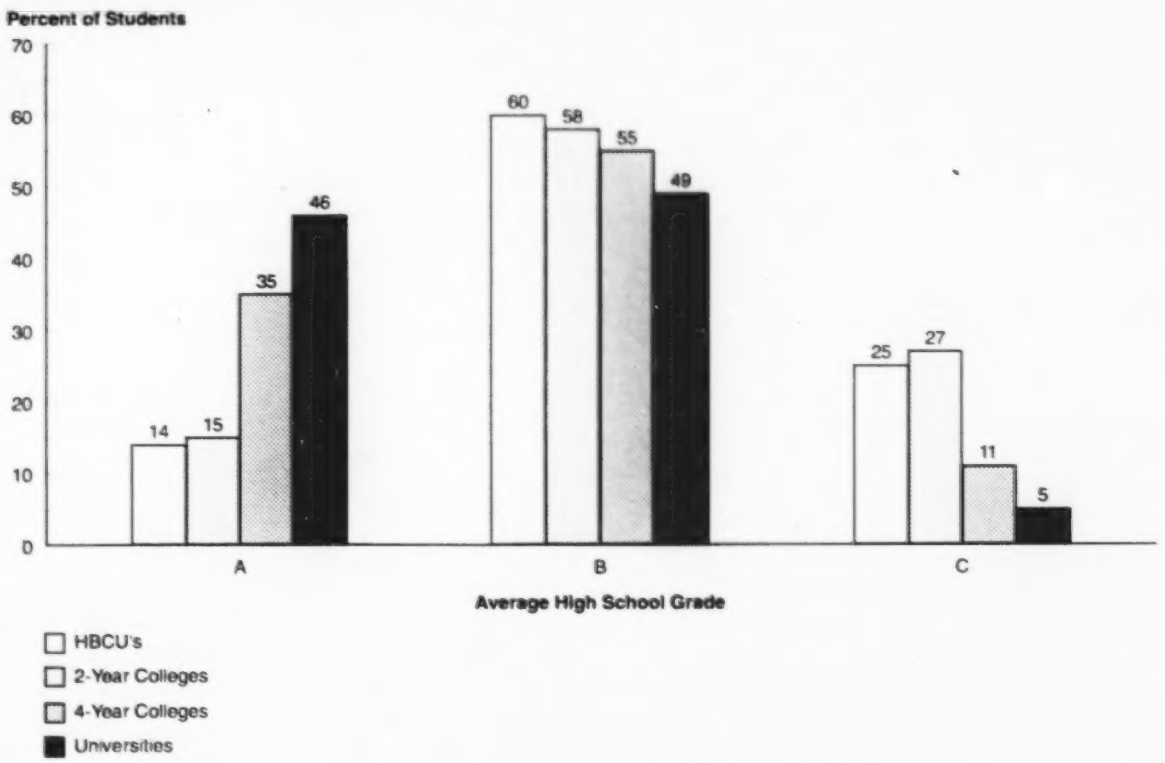
Academic Preparation Characteristics

Freshmen at HBCUs and 2-year schools reported similar high school grades: they were much less likely to earn A's and much more likely to earn B's and C's than freshmen at all 4-year colleges and universities (see fig. 2). For example, the portion of university freshmen with an A average

[5]Linda J. Sax, et al., The American Freshman: National Norms for Fall 1996 (Los Angeles: University of California, Los Angeles, Dec. 1996). The fall 1996 freshman survey categorizations—"all 4-year colleges" and "universities"—contained survey results from students enrolled at 444 4-year colleges and universities, including survey responses from freshmen at 14 HBCUs.

exceeded the portion of HBCU and 2-year freshmen threefold.[6] In contrast, over a quarter of HBCU and 2-year freshmen had a C average compared with 5 percent of university freshmen.

Figure 2: Average High School Grade Among Fall 1996 Freshmen



In six subject areas (English, reading, mathematics, social studies, science, and foreign languages), an average of 11 percent of HBCU freshmen had special tutoring or remedial work compared with 7 percent of 2-year, 6 percent of 4-year, and 4 percent of university freshmen (see table 2). In addition, HBCU freshmen were nearly twice as likely to require additional tutoring or remedial work as freshmen at all colleges and universities.

[6]The freshman survey mentioned in the preceding footnote defines "university" as an institution that awards a certain minimal number of earned doctoral degrees. Institutions offering postbaccalaureate programs but not awarding a sufficient number of earned doctoral degrees are considered "4-year colleges."

Table 2: Remedial Work Among Fall 1995 Freshmen

School type	Average % having had special tutoring or remedial work	Average % requiring special tutoring or remedial work
HBCU	11%	21%
2-year	7	12
4-year	6	12
University	4	8

Note: Information on remedial work was taken from Linda J. Sax et al., The American Freshman: National Norms for Fall 1995 (Los Angeles: University of California, Los Angeles, Dec. 1995).

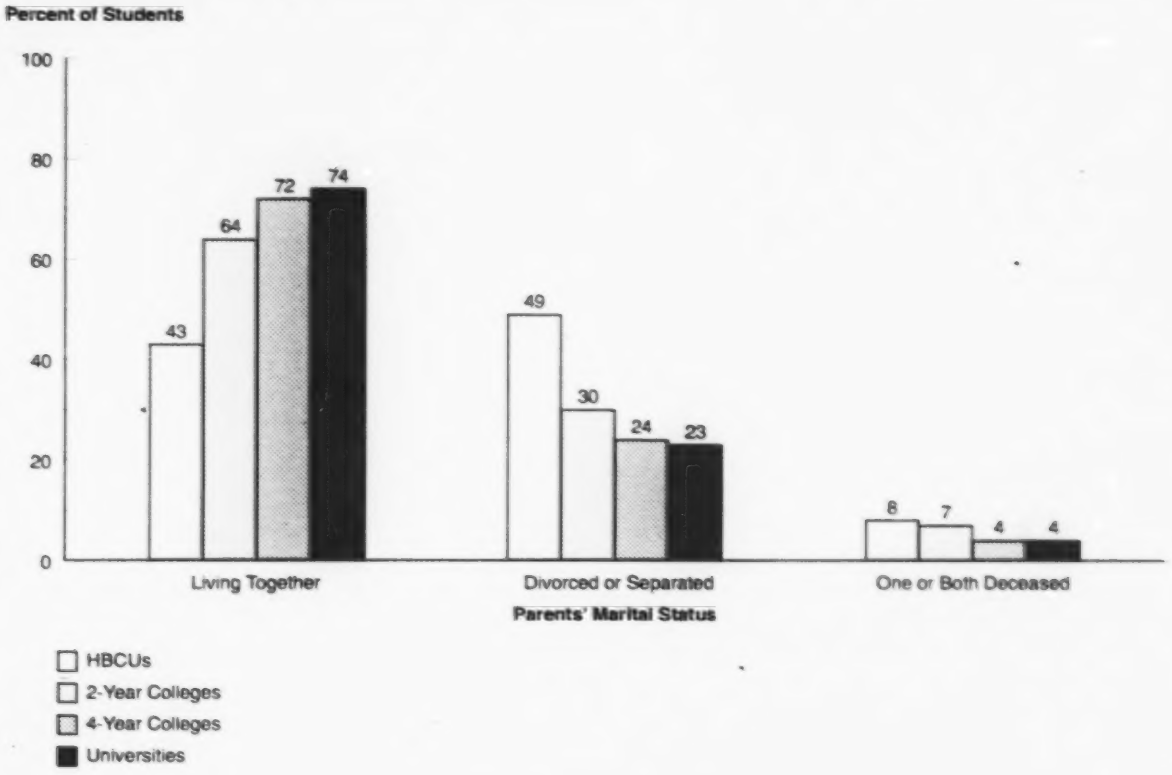
A comparison of the average 6-year graduation rate—another measure of academic preparedness—showed a 35-percent rate for 4-year HBCUs compared with 54 percent for 4-year non-HBCUs, a difference of 19 percentage points.[7]

Socioeconomic Characteristics

The typical marital status of parents of HBCU freshmen differed from that of parents of freshmen at all colleges and universities. Nearly half of all HBCU freshmen (49 percent) reported the marital status of their parents as divorced or separated, while the majority of freshmen at all schools reported that their parents were living together (see fig. 3).

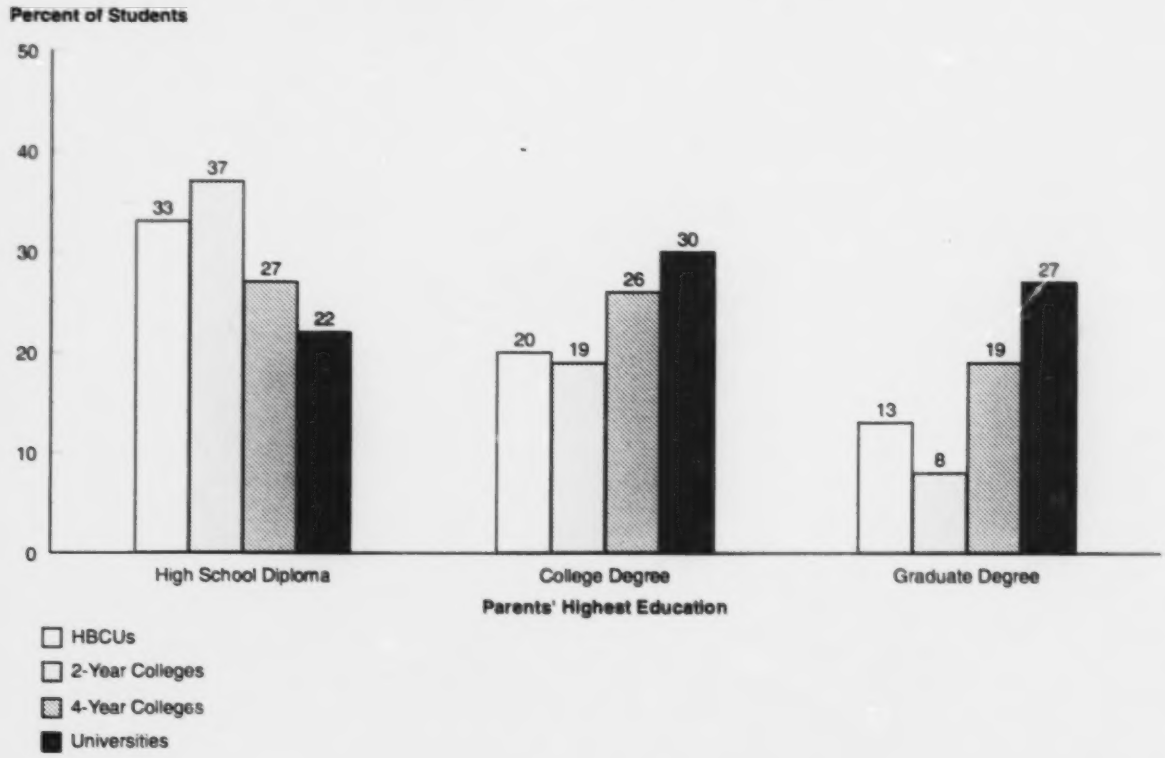
[7]Comparable graduation rate information was not available for 2-year schools.

Figure 3: Parents' Marital Status Among Fall 1996 Freshmen



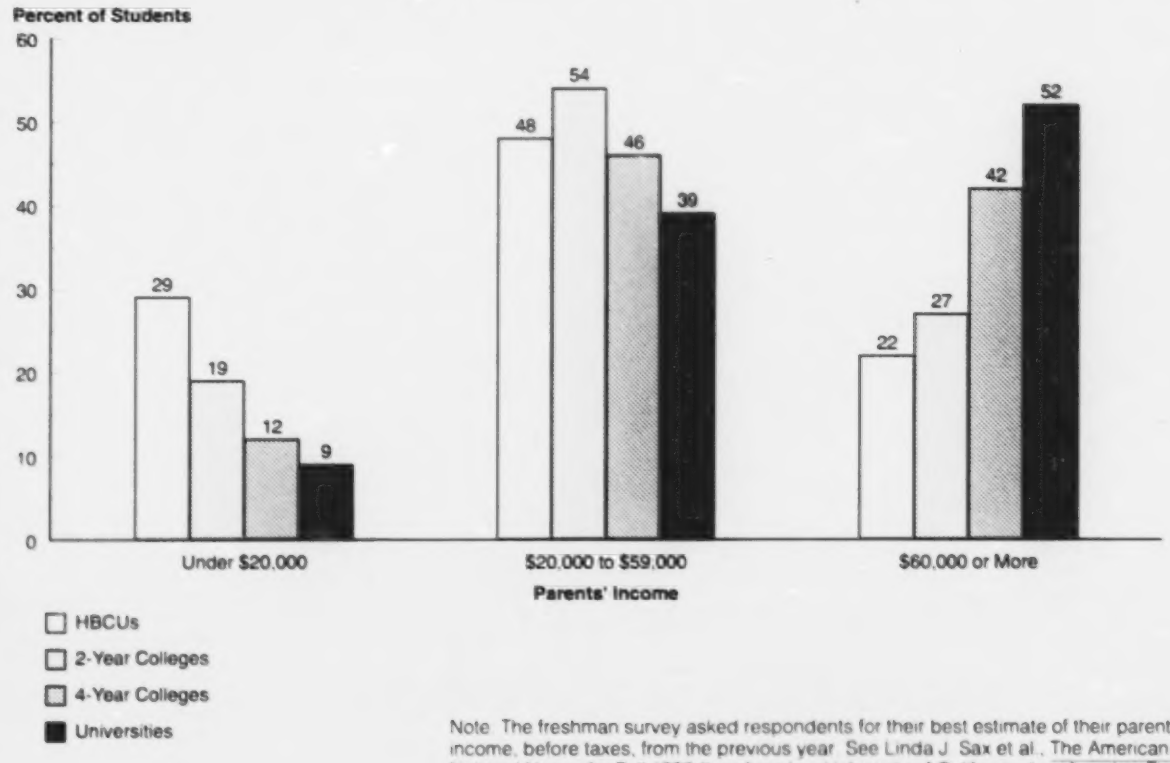
Fewer parents of HBCU and 2-year college freshmen had attained a college degree than had parents of 4-year college and university freshmen (see fig. 4). About 20 percent of HBCU and 2-year college freshmen reported that their parents had a college degree, compared with 26 percent or more of 4-year college and university freshmen.

Figure 4: Highest Level of Parental Education Among Fall 1996 Freshmen



Compared with parents of all freshmen, parents of HBCU freshmen were more likely to have lower incomes. The portion of freshmen with parents who had incomes of less than $20,000 ranged from 29 percent for HBCU freshmen to 9 percent for university freshmen (see fig. 5). In contrast, only 22 percent of parents of HBCU freshmen had incomes of $60,000 or more, compared with 52 percent for parents of university freshmen.

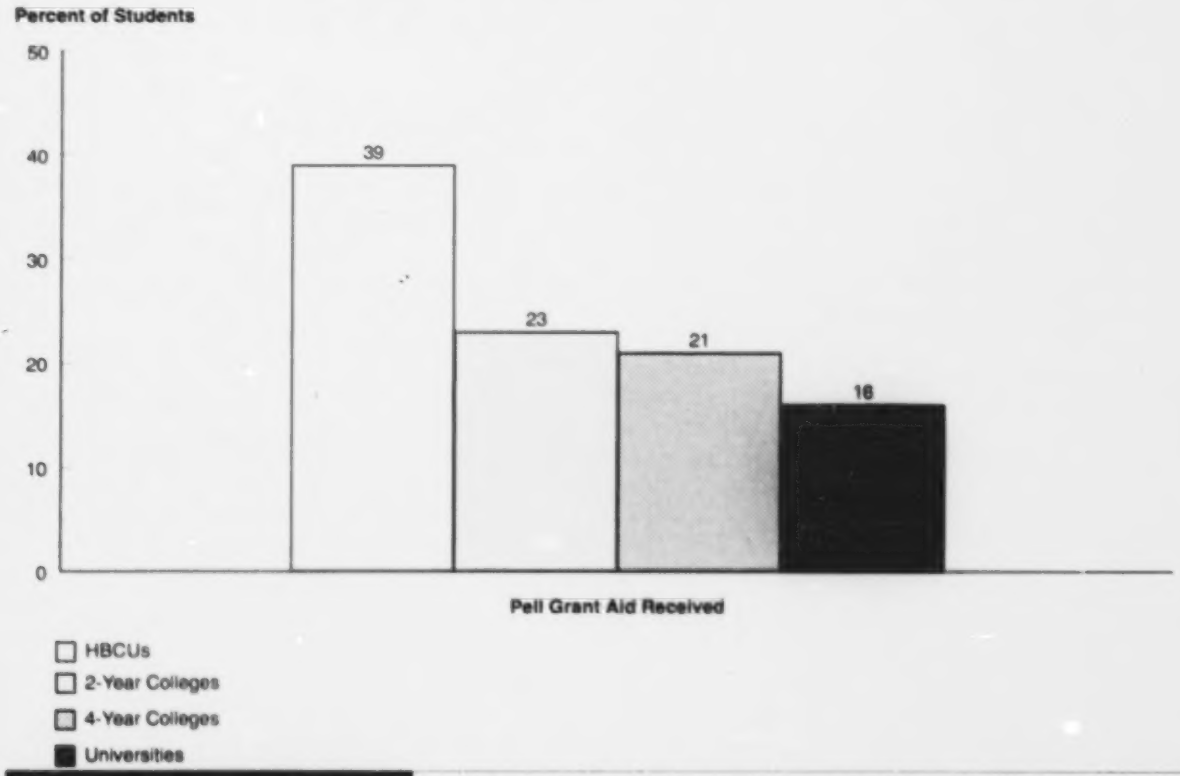
Figure 5: Parental Income Among Fall 1996 Freshmen



Note: The freshman survey asked respondents for their best estimate of their parents' total income, before taxes, from the previous year. See Linda J. Sax et al., The American Freshman: National Norms for Fall 1996 (Los Angeles: University of California, Los Angeles, Dec. 1996).

HBCU freshmen were much more likely to receive Pell grant aid than their counterparts at all schools, another indicator of parental income (see fig. 6). Generally, the lower the parents' income, the greater the amount of financial aid received. Federal Pell grants, available only to undergraduate students, under title IV, are designed to help students who have the greatest financial need. Grants need not be repaid, and the maximum Pell grant award amount for school year 1995-96 was $2,340.

Figure 6: Pell Grant Aid Received Among Fall 1996 Freshmen



High-Default HBCUs Have Students With Less Academic Preparation and More Disadvantaged Socioeconomic Backgrounds Than Low-Default HBCUs

Although HBCU students as a group differ substantially from students at all colleges and universities in their academic preparation and socioeconomic backgrounds, our analysis indicates that the same kinds of differences exist among students at individual HBCUs. That is, when HBCUs are divided into groups according to their default rates, the characteristics of students at schools with the highest default rates reflect less academic preparation and more disadvantaged socioeconomic backgrounds. These links between student characteristics and the magnitude of default rates at HBCUs are consistent with the research that has shown certain student characteristics to be linked to student loan defaults.

We based our analysis on undergraduate students at 83 4-year HBCUs that conferred bachelor's degrees during the 1993-94 school year and for which the Department had reported student loan default rate statistics for the

1993-95 cohorts.[8] Collectively, the default rate for these HBCUs averaged 20 percent over the 3-year period. We grouped the 83 HBCUs into low, medium, and high default categories to facilitate comparisons of student characteristics among three groups of HBCUs.[9] For the low group, the average default rate was 11.5 percent compared with 31 percent for the high group.

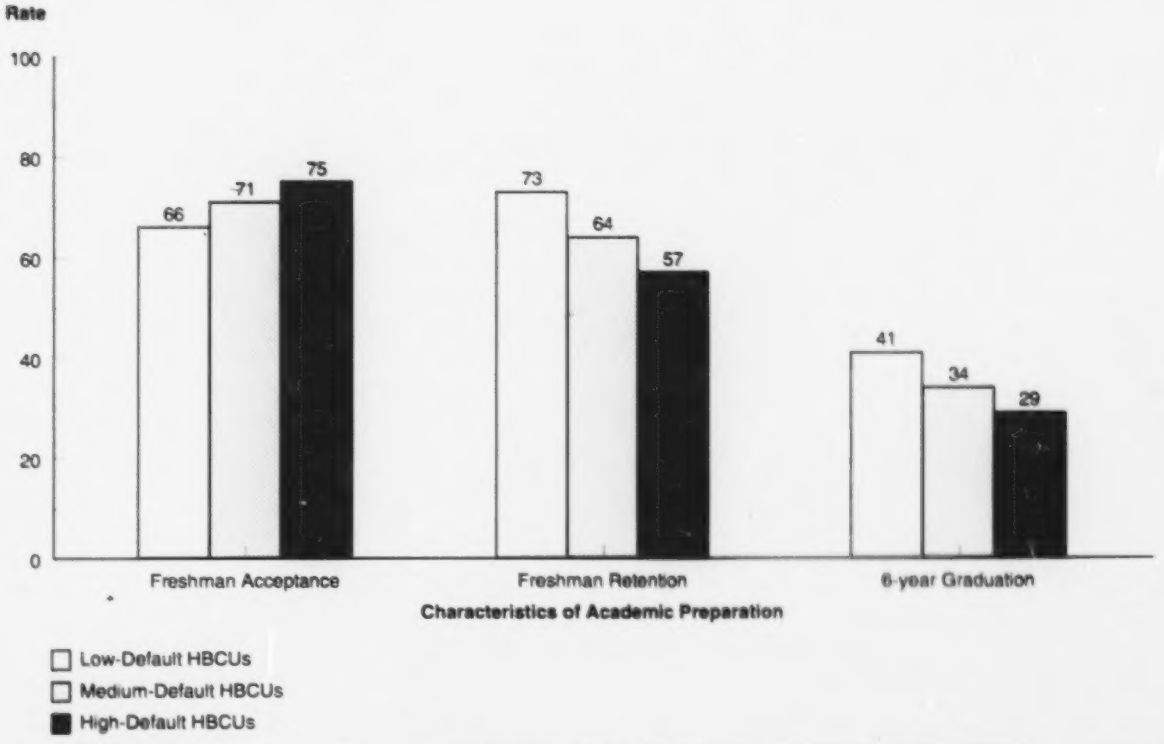
Academic Preparation Characteristics

Comparing the academic characteristics of students at HBCUs with low, medium, and high default rates for fiscal years 1993-95 showed that students at high-default-rate HBCUs consistently exhibited a lower level of academic preparation than students at HBCUs with low default rates. For example, the 6-year graduation rate for low-default-rate HBCUs was more than 1.4 times higher (at 41 percent) than the 29-percent rate for high-default-rate HBCUs. A similar trend was found for retention of freshmen at HBCUs. Conversely, freshman acceptance rates, an indicator of a school's selectiveness in admitting academically qualified applicants, were lower at HBCUs with low default rates (see fig. 7).

[8]The Department reported default rates on four other 4-year HBCUs that we excluded from our review because they did not confer bachelor's degrees in 1993-94.

[9]The three default rate categories were (1) low, or less than or 15 percent; (2) medium, 15 percent to 24.99 percent; and (3) high, or 25 percent or more.

Figure 7: Comparison of Student Characteristics Related to Academic Preparation at HBCUs With Low, Medium, and High Default Rates, Fiscal Years 1993-95

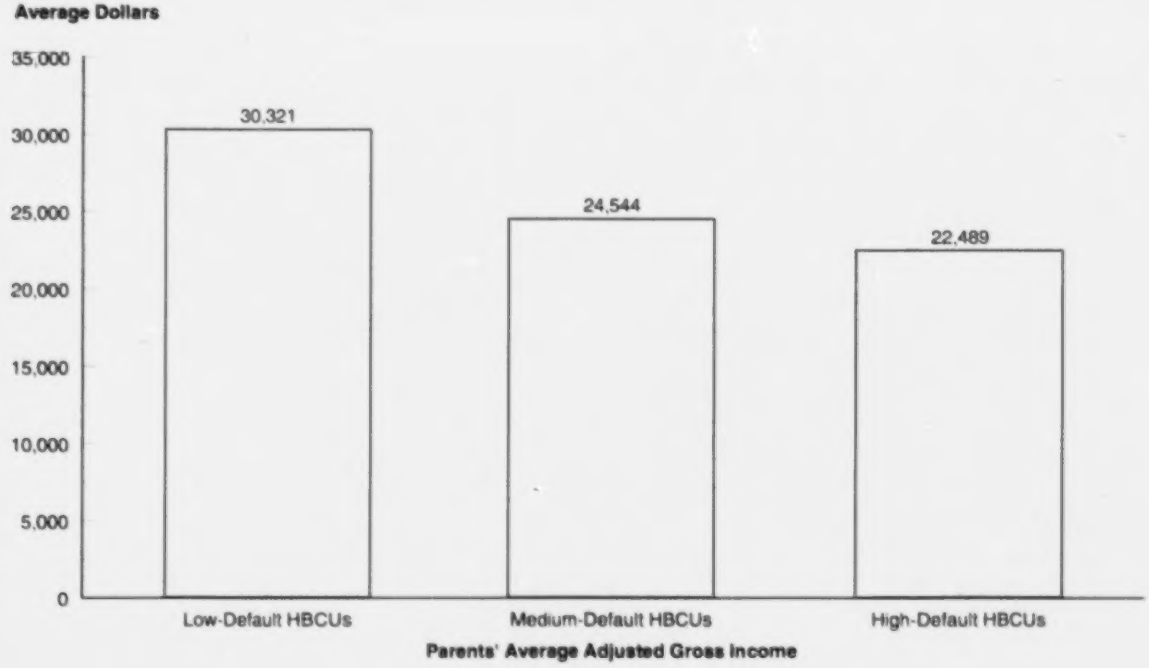


Socioeconomic Background Characteristics

For this portion of our analysis, Department of Education data covered only students who had received federal student aid during the 1995-96 school year at the 83 4-year HBCUs.[10] Our comparisons showed that students at high-default-rate HBCUs consistently had more disadvantaged socioeconomic characteristics than students at HBCUs with low default rates. For example, parents' average adjusted gross income for high-default-rate HBCUs was $22,489, about 26 percent lower than the $30,321 average for low-default-rate HBCUs (see fig. 8). Twenty-five percent of the students' parents at high-default-rate HBCUs had adjusted gross income of $30,000 or more, compared with 36 percent for parents of students at low-default-rate HBCUs.

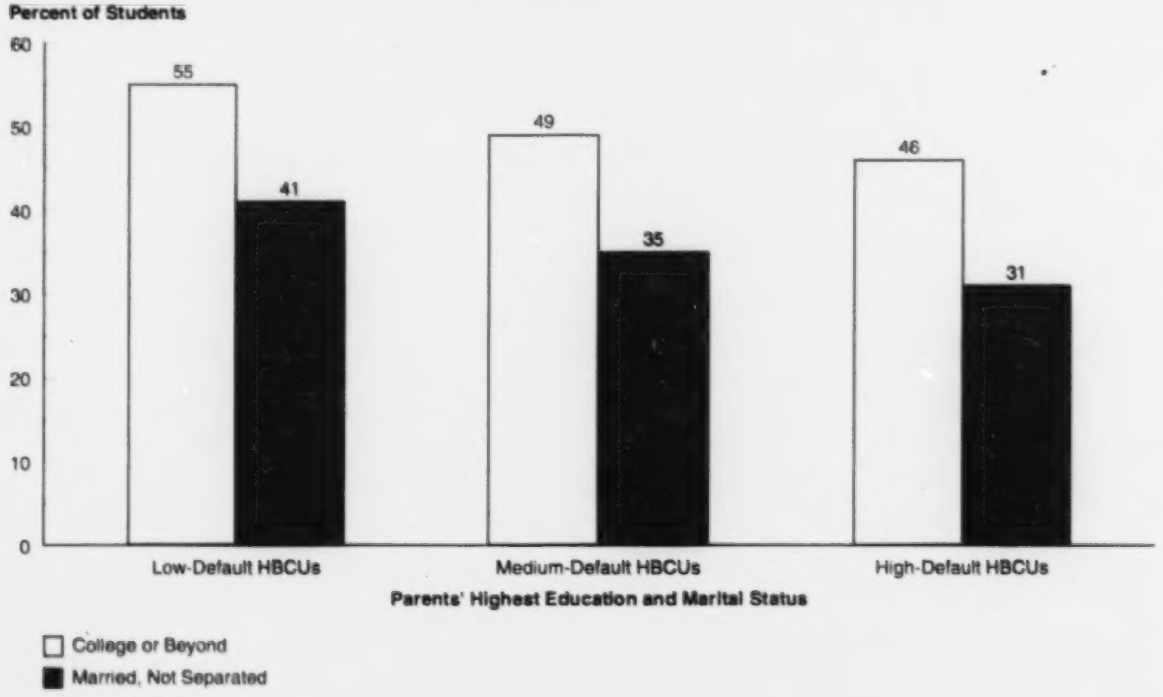
[10]For our review, federal aid recipients included HBCU students who received FDLP or FFELP loans or Pell grants during the 1995-96 school year.

Figure 8: Comparison of Student Federal Aid Recipients' Parents' Average Adjusted Gross Income at HBCUs With Low, Medium, and High Default Rates, Fiscal Years 1993-95



Similarly, the extent to which parents' highest education level was college or beyond and to which parents were married and not separated were lower for high-default-rate HBCUs compared with low-default-rate HBCUs (see fig. 9).

Figure 9: Comparison of Student Federal Aid Recipients Whose Parents Attended College or Who Were Married at HBCUs With Low, Medium, and High Default Rates, Fiscal Years 1993-95



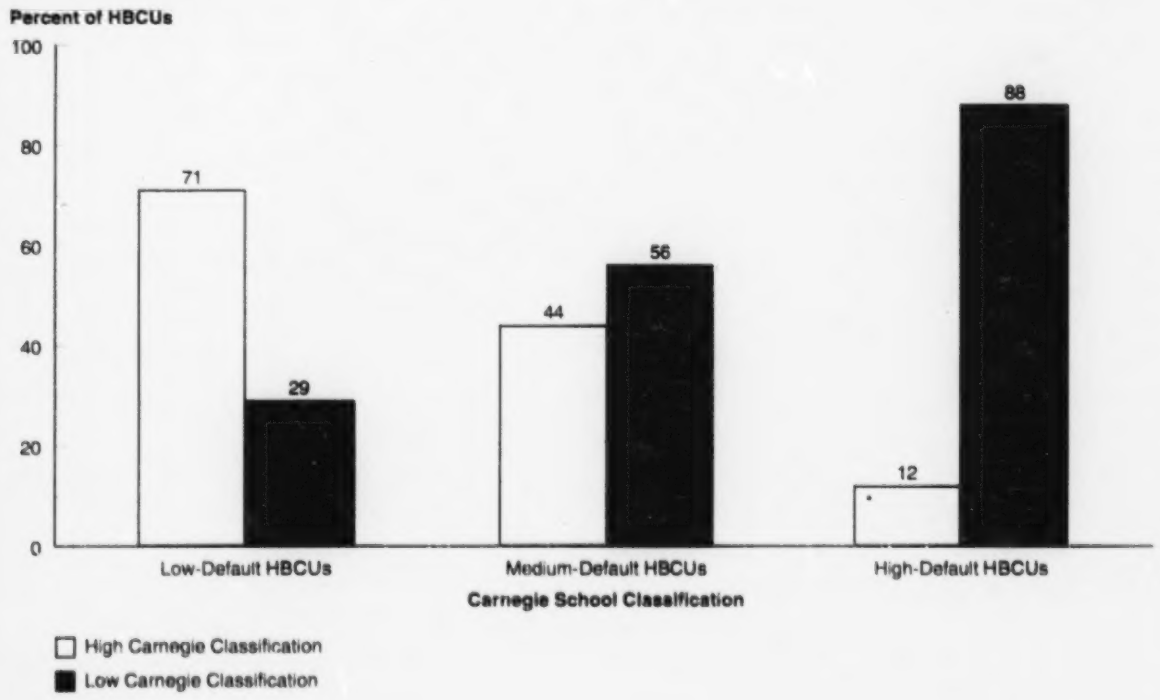
Carnegie School Classifications

The Carnegie Foundation for the Advancement of Teaching developed a system to classify American colleges and universities primarily based on their academic missions, such as their highest degree offerings, the numbers of degrees conferred, and in some cases the selectivity of a school's admissions. Although it is an institutional measure, we consider the Carnegie classification to reflect the academic preparation of a school's students based on the level of the degrees it offers and confers and on the selectivity of the students it admits. To facilitate comparisons among 4-year HBCUs included in our review, we consolidated the HBCUs' various Carnegie classifications into two categories: "high" and "low" (see app. III). Our analysis showed that low-default-rate HBCUs had a higher Carnegie classification than high-default-rate HBCUs.

HBCUs that have high Carnegie classifications confer more doctoral, master's, or liberal arts degrees or are more restrictive (requiring higher

high school grades or college admission test scores) in student admission criteria. There appears to be a strong link between an HBCU with a high Carnegie classification and low student loan default rates. Schools with high Carnegie classifications made up 71 percent of low-default-rate HBCUs compared with only 12 percent of HBCUs with high student loan default rates (see fig. 10).

Figure 10: The Rate of High and Low Carnegie School Classifications at HBCUs With Low, Medium, and High Default Rates, Fiscal Years 1993-95



Department Measures to Reduce Defaults Are Aimed at All Schools

According to Department officials, default reduction measures apply to all schools participating in federal student loan programs and are not specifically aimed at lowering high default rates at HBCUs. These measures were part of the default reduction initiative that the Department introduced in June 1989 in response to the rising default rates in federal student loan programs at that time. These measures, found in statutes,

regulations, and guidance, required schools to provide students with loan counseling, take steps to promote repayment among delinquent borrowers, and, for schools whose default rate exceeded certain thresholds, implement a default management plan.

Loan Counseling

Under default-reduction regulations and agency guidance, all schools must perform entrance counseling before releasing loan proceeds to a borrower and exit counseling shortly before a borrower ceases at least half-time study. Entrance counseling is to include exploring all sources of aid, stressing constraints on aid, reviewing requirements for satisfactory academic progress, reminding students to keep lenders informed, reviewing available repayment options, and reviewing the consequences of delinquency and default. Many of the points stressed in entrance counseling are to be reiterated during exit counseling in addition to obtaining such data as the student's expected permanent address, employer's name and address, and the address of next of kin.

The Department has no prescribed format for financial aid counseling other than its requirement that a person knowledgeable about financial aid programs be available for answering borrowers' questions after the counseling sessions. Schools are encouraged to use such aids as charts, handouts, videotape, and computer-assisted technology to increase the effectiveness of their counseling sessions. These materials, as well as training for financial aid administrators, are generally available from the Department and some guaranty agencies, lenders, and other postsecondary education organizations.[11]

Attention to Delinquent Borrowers

Another default-reduction measure requires guaranty agencies to notify, upon request and within 30 days, a FFELP borrower's school after the borrower has missed a loan payment due date (the loan has gone into delinquency).[12] This provision for alerting a school of a student's loan delinquency is intended to give the school an expeditious opportunity to work with the borrower to avert a default. In FDLP, the Department similarly notifies schools of delinquent borrowers. Schools are encouraged

[11]Guaranty agencies are nonprofit or state agencies that help administer FFELP.

[12]Before October 1992, lenders rather than guaranty agencies were required to notify schools of borrowers' delinquencies as they occurred.

to urge borrowers to resume payments to cure the delinquency or provide advice on applying for a deferment or forbearance.[13]

To assist schools in tracking their student loan borrowers, the Department developed a software product, the Institutional Default Prevention System, in 1990. Three HBCUs were among the schools that tested the software before its formal release to general users. In using this system, schools can better maintain information about borrowers who have left the school and can print loan reminder letters to send to them. The Department has provided copies of this software to schools participating in both the FFELP and FDLP, including nearly all HBCUs.

Default Management Plans

For many years, if a school's default rate exceeded 20 percent, the Department required it to implement a default management plan designed to reduce its default rate. The plan typically identified the measures the school was taking, such as revising its admissions policy to enroll more-qualified students, expanding job placement efforts, and conducting additional loan counseling activities. At various times from 1990 through the first half of 1996, the Department required 92 HBCUs to implement a default management plan.

Effective July 1996, the Department no longer required high-default-rate schools to submit or implement default management plans because it lacked resources to effectively oversee schools' adherence to the requirement. However, the Department encourages schools to continue to implement default management plans to help prevent students from defaulting on their student loans.

Fewer HBCUs Are at Risk of Losing Student Loan Program Eligibility

In August 1993, we reported that 33 HBCUs had 1988-90 cohort default rates equal to or greater than the 25-percent statutory threshold.[14] The schools could have become ineligible for continued participation in student loan programs if their default rates had persisted at the rates reported, and the Congress did not extend the HBCUs' exemption from the statutory threshold.

[13]Deferment permits a borrower to postpone the payment of principal. Forbearance permits the temporary cessation of payments (although interest accrues), allowing an extension of time for making payments or temporarily accepting smaller payments than were previously scheduled.

[14]GAO/HRD-93-117FS, Aug. 19, 1993.

Based on 1993-95 cohort default rates, 8 of the 33 HBCUs still have default rates over the threshold (see table 3) and remain in the program because of the exemption. Nineteen of the 33 HBCUs have subsequently lowered their default rates and no longer exceed the threshold. Six of the 33 HBCUs no longer participate in federal student loan programs. Of these six HBCUs, two merged with other schools, one was annexed by another HBCU, and three lost accreditation and therefore were no longer eligible to participate in federal student loan programs.

Table 3: Status of 33 HBCUs Previously Identified as Potentially at Risk of Losing Student Loan Program Eligibility, Fiscal Year 1993-95 Cohorts

Status	Number of HBCUs
Default rates no longer exceed the 3-year, 25-percent threshold	19
Default rates still exceed the 3-year, 25-percent threshold	8
No longer participating in student loan programs	6
Total	**33**

Of the 19 HBCUs with lower default rates, 9 had rates that were lower than the 25-percent threshold in all three fiscal years, 1993-95. Five HBCUs had rates that were below the threshold for 2 years, and another five had rates below the threshold in 1 year. All 19 HBCUs had lower 3-year default rate averages for fiscal years 1993-95 than for 1988-90. Appendix IV shows the default rate history for these 19 HBCUs.

Compared with 33 HBCUs that exceeded the 25-percent threshold for the 1988-90 cohorts, only 14 HBCUs exceeded the threshold for the 1993-95 cohorts. Of these 14 HBCUs, 8 were schools that were included in the 1988-90 cohorts that still remain at risk and 6 had not been at risk in the 1988-90 cohorts.

High- and Low-Default HBCUs Report Taking Similar Actions to Reduce Default Rates

To determine what default reduction measures HBCUs had taken that might have contributed to the decline in the number of HBCUs exceeding the statutory threshold since our 1993 report, we conducted a telephone survey of selected HBCU financial aid administrators. Our survey sample included 17 HBCUs that exceeded the threshold in 1988-90 but were below the threshold in 1993-95 and, for comparison, the 9 HBCUs that had the lowest average 1993-95 default rates.[15] This sample allowed us to obtain the perspectives of administrators at HBCUs that had formerly had high

[15]Although 19 of the 33 HBCU's were below the threshold in 1993-95, we did not include 2 schools in our survey because they had little or no participation in the student loan programs. For this period, the Department reported one school as having no borrowers in repayment or default and the other as having only three borrowers in repayment and none in default.

default rates and those that consistently had low default rates. We asked them what measures their schools had taken to reduce or minimize their student loan default rates.

Twenty-two administrators responded to our survey, 14 at HBCUs that formerly had high default rates and 8 at HBCUs that consistently had low default rates. They most often cited loan counseling or early intervention with delinquent borrowers as the measures they had taken to address defaults. In meeting the counseling requirement, the administrators described various practices that, in their opinion, made counseling more effective. These included

- requiring all incoming students, not just borrowers, to attend loan counseling sessions;
- emphasizing personal finance and debt management; and
- bringing in outside credible experts, such as a lender or guaranty agency representative, to give presentations to students during counseling sessions.

In addition, the policy at several of these HBCUs was to direct students, at the time of their enrollment, to other financial aid resources such as grants, scholarships, and work-study programs, so that students could minimize or avoid indebtedness.

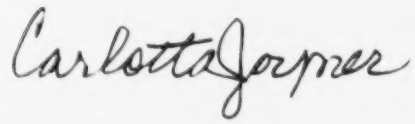
While these administrators said that they contacted delinquent borrowers as part of their default prevention effort, a minor difference emerged in how they implemented this measure. About half the administrators at HBCUs that previously had high default rates said that their schools had created a default rate manager position or retained a consultant to track and contact delinquent borrowers. But only one of the administrators at an HBCU that consistently had low default rates reported taking similar action.

Agency Comments

The Department of Education reviewed a draft of this report and had no formal comments, although it provided several technical suggestions that we incorporated as appropriate.

Copies of this report will be provided to appropriate congressional committees, the Secretary of Education, and others who are interested. If you have any questions or wish to discuss this material further, please call me or Joseph J. Eglin, Jr., Assistant Director, at (202) 512-7014. Major

contributors include Deborah L. Edwards, Daniel C. Jacobsen, Robert B. Miller, Charles M. Novak, Meeta Sharma, and Edward H. Tuchman.



Carlotta C. Joyner
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Abbreviations

FDLP	William D. Ford Federal Direct Loan Program
FFELP	Federal Family Education Loan Program
HBCU	Historically Black Colleges and Universities

Appendix I

Scope and Methodology

Over the past decade, a growing body of research has established that certain measures of students' academic preparation and socioeconomic status are predictors of how likely students are to default on student loans. In general, research has shown that default rates tend to be higher among students who are not as well prepared academically as others and whose families are not as well off economically. We were asked to address several issues regarding default rates at Historically Black Colleges and Universities (HBCU), including an analysis of these kinds of links.

Research on Student Characteristics

To identify student characteristics that have been shown to predict student loan defaults, we searched for available literature. We selected studies that were published within the past 10 years and that used multivariate analysis to show a link between student characteristics and default rates. Although we did not find many relevant studies that met these criteria, we identified the following four key studies and relied on them:

- Wellford W. Wilms, Richard W. Moore, and Roger E. Bolus, "Whose Fault Is Default? A Study of the Impact of Student Characteristics and Institutional Practices on Guaranteed Student Loan Default Rates in California," Educational Evaluation and Policy Analysis, Vol. 9, No. 1 (spring 1987), pp. 41-54.
- Mark Dynarski, Analysis of Factors Related to Default (Princeton, N.J.: Mathematica Policy Research, Inc., April 1991).
- Laura Green Knapp and Terry G. Seaks, "An Analysis of the Probability of Default on Federally Guaranteed Student Loans," The Review of Economics and Statistics, August 1992.
- J. Fredericks Volkwein and Bruce P. Szeiest, "Individual and Campus Characteristics Associated with Student Loan Default," Research in Higher Education, Vol. 36, No. 1 (1995).

These empirical research studies have collectively analyzed student borrowers from proprietary schools as well as from public and private 2-year and 4-year colleges and universities. These studies showed that default behavior was linked more closely to the characteristics of students rather than schools. We used these and other related studies to identify academic preparation (graduation rates, high school grades, and freshman retention and acceptance rates) and socioeconomic (parental income, level of education, and marital status) characteristics of students that are associated with student loan defaults. Other studies we used include

- Alexander W. Astin, Lisa Tsui, and Juan Avalos, Degree Attainment Rates at American Colleges and Universities: Effects of Race, Gender and Institutional Type, Higher Education Research Institute, University of California, Los Angeles, September 1996.
- Alexander W. Astin, The Black Undergraduate: Current Status and Trends in the Characteristics of Freshmen, Higher Education Research Institute, University of California, Los Angeles, July 1990.
- Shirley L. Mow and Michael T. Nettles, "Minority Student Access to, and Persistence and Performance in, College: A Review of the Trends and Research Literature," Higher Education: Handbook of Theory and Research, Vol. 6 (New York: Agathon Press, 1990).

Comparing Students at HBCUs With Those of All Colleges and Universities

To determine how these academic preparation and socioeconomic characteristics of students enrolled at HBCUs compared with those of students at all colleges and universities, we reviewed the literature and identified one research study that reported academic and socioeconomic information by type of school. This information (except graduation rates) came from The American Freshman: National Norms for Fall 1996, a longitudinal study consisting of an annual survey published by the Higher Education Research Institute, University of California, Los Angeles. Statistics on remedial work were obtained from the prior year's survey, which was the most recent data available at the time we performed our analysis.

The fall 1996 freshman survey was based on a sample of 251,232 first-time, full-time students at 494 colleges and universities. The respondents were students enrolled full-time who either graduated from high school in the same year as entering college or had no previous college experience. These students were enrolled in the following 494 public and private colleges and universities:

- 14 4-year HBCUs,
- 50 2-year colleges that offered associate's degrees or were known as "terminal vocational" colleges,
- 363 4-year colleges that offered postbaccalaureate programs but did not award a sufficient number of earned doctoral degrees to be classified as universities, and
- 67 universities that granted a certain minimal number of earned doctoral degrees.

Information on 6-year graduation rates, defined as the percentage of first-time, full-time degree-seeking freshmen who enrolled in fall 1989 and completed their bachelor's degree by fall 1995 at the same school, primarily came from U.S. News and World Report's 1996 America's Best Colleges survey. The 1996 survey was based on the completion of an extensive questionnaire by more than 1,400 accredited 4-year colleges and universities and represented the tenth edition of America's Best Colleges. For the 83 4-year HBCUs examined, we obtained graduation rates for 82 HBCUs, 77 from U.S. News and 5 from the HBCUs directly (1 HBCU did not provide its graduation rate).[16] Also, for 1,050 4-year non-HBCUs, we obtained U.S. News graduation rates in a computerized summary from the Postsecondary Education Opportunity newsletter.[17] For comparison purposes, we calculated two average graduation rates, one for HBCUs and one for non-HBCUs.

Comparing Students Among Low-, Medium-, and High-Default-Rate HBCUs

To determine the extent to which HBCU undergraduate student characteristics associated with loan defaults differed, we classified 4-year HBCUs as those with low, medium, and high default rates. To define these groupings for the 83 HBCUs, we developed a two-part analysis: we (1) calculated a 3-year average default rate for each institution using its 1993-95 cohort rate and (2) used the 3-year average rate to classify HBCUs as low-default if rates were less than 15 percent, medium-default if rates ranged from equal to or greater than 15 percent to less than 25 percent, and high-default if equal to or greater than 25 percent.

We obtained student characteristics data from (1) Department of Education records and reports, such as the National Student Loan Data System, the Free Application for Federal Student Aid database for academic year 1995-96, and the Integrated Postsecondary Education Data System surveys on 1995 fall enrollments and on school year 1995-96 institutional characteristics; (2) HBCUs that we contacted, as needed, to obtain student academic preparation characteristics missing from other data sources; and (3) U.S. News & World Report's 1996 America's Best Colleges survey.

[16]Eighty-three HBCUs were included in our analyses. They were included in the Department's most current (1993-95 cohorts) Default Management Division report and had issued or conferred bachelor's degrees in 1993-94. Four HBCUs were excluded because they did not confer bachelor's degrees in 1993-94. Three were postgraduate schools with no undergraduate students. The other had just become an undergraduate, 4-year school in December 1994.

[17]Thomas Mortenson, "Actual versus Predicted Institutional Graduation Rates for 1100 Colleges and Universities," Postsecondary Education Opportunity, Apr. 1997.

Department and HBCU Measures to Reduce Student Loan Default Rates

We obtained information on measures the Department of Education has taken or planned to help HBCUs lower their default rates from federal regulations, Department publications, and interviews with Department officials. We reviewed the Department's Default Management Report for 1993-95 cohorts to determine the current status of the 33 HBCUs identified in our earlier report as having the potential to lose their eligibility to participate in title IV loan programs because of high default rates.

To determine the measures HBCUs were taking to reduce their default rates, we conducted a telephone survey of financial aid administrators at 26 HBCUs. Seventeen of these had been among the 33 HBCUs identified in our earlier report as being at risk of losing their eligibility but had subsequently lowered their default rates below the statutory level for at least 1 of the 3 1993-95 cohort years. Two of these HBCUs did not respond to repeated requests for an interview. The financial aid director at another school was on extended leave and the acting director was reluctant to comment since he had been on campus only a few weeks. We also surveyed administrators at nine HBCUs that had the lowest 3-year average default rates among HBCUs for the 1993-95 cohorts. One of these schools did not respond to repeated requests for an interview.

Data Reliability and Audit Standards

Although we did not validate the reliability of the data derived from the sources indicated, these data are readily available and the education community relies on them. We conducted our review between June 1997 and January 1998 in accordance with generally accepted government auditing standards.

Appendix II

Selected Academic Preparation and Socioeconomic Background Student Characteristics Linked to Student Loan Default

From our review of research, we identified and selected academic preparation and socioeconomic student characteristics that have been shown to affect student loan default rates and for which data were available. In cases in which characteristics data were unavailable, we judgmentally selected a related characteristic for which data were readily available as a substitute for the characteristic identified in the research. Thus, depending on data availability, the characteristics used to compare HBCUs and all colleges and universities differed from those used to compare high- and low-default-rate HBCUs (see table II.1).

Table II.1: Availability of Data on Characteristics That Research Has Shown to Be Useful Indicators of Student Loan Default

Student characteristic	Characteristic description and relation to default rates	Comparison between: HBCUs and all schools	Comparison between: High- and low-default HBCUs
Academic preparation			
Average high school grade	Average grade earned in high school: A, B, or C. High grade linked to lower default rate.	Available[a]	Not available
Remedial education	A noncredit or reduced credit course in higher education designed to increase the student's ability to pursue a course of study leading to a certificate or degree. Little to no remedial education linked to lower default rate.	Available[a]	Not available
4-year freshman retention rate[b]	Over 4 years (beginning with fall 1991), the average percentage of first-time, full-time degree-seeking students that reenrolled in the fall of their sophomore year. A measure of the student's ability to stay in college. High retention rate linked to lower default rate.	Not needed	Available[c]
1995 freshman acceptance rate[b]	The percentage of first-time, first-year applicants who were accepted for admission in fall 1995. An indicator of a school's selectiveness in admitting academically qualified applicants. Low acceptance rate linked to lower default rate.	Not needed	Available[c]
6-year graduation rate[b]	The percentage of first-time, degree-seeking (freshmen) students who completed a bachelor's degree from the same school within 6 years of fall 1989 initial enrollment. Shown to be a culmination of good academic preparation. High graduation rate linked to lower default rate.	Available[c]	Available[c]
Socioeconomic background			
Parents' marital status	Married (living together) or not married (single, divorced, separated, or one or both deceased). Married status linked to lower default rate.	Available[a]	Available[d]
Parents' education	Highest level of education completed by either parent. Higher level of education linked to lower default rate.	Available[a]	Available[d]
Parents' income	For comparing HBCUs to non-HBCUs, parents' income is the student's estimate of parents' 1995 total income, before taxes. For comparing high- to low-default HBCUs, parents' income is their adjusted gross income as reported on the 1995-96 school year Free Application for Federal Student Aid. Higher income linked to lower default rate.	Available[a]	Available[d]

[a]Source: University of California, Los Angeles, surveys of fall 1995 and 1996 freshmen.

[b]This substitute was used since neither high school grade nor admissions test score data were available to compare high- and low-default-rate HBCUs.

[c]Source: U.S. News and World Report's 1996 America's Best Colleges survey.

[d]Source: Free Application for Federal Student Aid database, school year 1995-96.

Carnegie School Classifications

The Carnegie Foundation for the Advancement of Teaching has developed a system for classifying, largely based on academic mission, about 3,600 colleges and universities in the United States that are degree-granting institutions and accredited by an agency recognized by the Department of Education. Schools are classified according to their highest level of offering, the number of degrees conferred by discipline, and the amount of federal support for research received by the school, and some categories also rely on the selectivity of the school's admissions. Since the classifications reflect levels and numbers of degrees conferred as well as admissions restrictions, we consider these classifications to be a substitute for student academic preparation. To facilitate making comparisons among the 4-year HBCUs included in our review, we consolidated the various Carnegie classifications for each HBCU into the following two categories:

1. High Carnegie School Classification. Schools we describe as having higher degree levels or being more admissions restrictive and that had one of the following Carnegie classifications:

- Research Universities I: giving high priority to research, awarding 50 or more doctoral degrees each year, and receiving annually $40 million or more in federal support.
- Doctoral Universities I: awarding at least 40 doctoral degrees annually in five or more disciplines.
- Doctoral Universities II: awarding annually at least 10 doctoral degrees in three or more disciplines or 20 or more doctoral degrees in one or more disciplines.
- Master's (Comprehensive) Universities and Colleges I: awarding 40 or more master's degrees annually in three or more disciplines.
- Master's (Comprehensive) Universities and Colleges II: awarding 20 or more master's degrees annually in one or more disciplines.
- Baccalaureate (Liberal Arts) Colleges I: awarding 40 percent or more of their baccalaureate degrees in liberal arts fields and being restrictive in admissions.

2. Low Carnegie School Classification. Schools we describe as having fewer liberal arts degrees, being less admissions restrictive, or being specialized and that had one of the following Carnegie classifications:

- Baccalaureate Colleges II: awarding less than 40 percent of their baccalaureate degrees in liberal arts fields or being less restrictive in admissions.

- Theological seminaries, Bible colleges, and other institutions offering degrees in religion.
- Teachers colleges.

Default Rate History for Selected HBCUs

The following table lists the default rate history for 19 HBCUs whose 1988-90 rates exceeded the statutory threshold of 25 percent and whose rates had fallen below the threshold for the most current (1993-95) cohort years.

	Default rate			Average rate	Default rate			Average rate
HBCU	1988	1989	1990	1988-90	1993	1994	1995	1993-95
1	25.3	31.0	30.5	28.93	23.9	21.9	17.0	20.93
2	27.4	30.3	33.1	30.27	21.3	25.0	26.1	24.13
3	33.6	36.1	34.6	34.77	19.6	21.5	20.0	20.37
4	30.4	33.8	30.9	31.70	22.7	17.5	16.8	19.00
5	31.4	34.0	33.1	32.83	23.1	17.8	16.0	18.97
6	33.3	28.0	28.4	29.90	17.1	16.5	17.2	16.93
7	33.1	34.5	37.3	34.97	17.9	29.9	31.9	26.57
8	26.8	32.4	31.1	30.10	21.8	19.0	23.9	21.57
9	31.2	33.0	28.4	30.87	18.7	17.5	27.4	21.20
10	32.3	39.3	33.6	35.07	19.9	17.9	14.0	17.27
11	31.7	39.2	36.9	35.93	23.6	22.8	25.3	23.90
12	35.5	31.7	32.3	33.17	24.8	29.4	28.2	27.47
13	38.3	45.7	40.1	41.37	27.8	15.0	16.4	19.73
14	25.2	31.2	33.9	30.10	25.5	23.8	24.1	24.47
15	33.1	29.0	28.9	30.33	25.7	12.2	19.3	19.07
16	45.7	48.8	53.3	49.27	38.1	39.4	7.7	28.40
17	29.8	29.0	37.7	32.17	30.9	26.7	17.6	25.07
18[a]	30.3	27.8	31.6	29.90	0.0	0.0	0.0	0.00
19[b]	49.1	48.1	48.9	48.70	23.5	14.3	0.0	12.60

[a]The 1988-90 default rates for this HBCU are based on average rate calculations required for schools that have fewer than 30 borrowers entering repayment in a cohort year. The Department reported default rates of zero for the 1993-95 cohorts.

[b]The 1990 and 1993-95 default rates for this HBCU were also based on average rate calculations.

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